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Public Views on Major Rail) STB Ex Parte No. 582
Consolidation and the Structure of the)
North American Railroad Industry)

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Statement of Hampton Affiliates

by
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My name is Ronald C. Parker. I am and have been the President and Chief Executive Officer of Hampton Affiliates for over four years. I have been employed in the forest products industry for approximately 22 years. Hampton Affiliates is a privately-held company engaged in the manufacture and distribution of lumber products from mills in Oregon and Washington. We also own private timberlands in Oregon and Washington, and maintain a large wholesale operation that handles panels and other products in addition to lumber. Based on our current operating plan, we should be the second-largest producer of softwood lumber in the Pacific Northwest in the year 2000. Our company depends heavily on the railroad system in the United States for delivery of our products to market. In 1999 we shipped approximately 1.4 billion board feet of lumber, representing the equivalent of approximately 18,000 railcar loads. Approximately 70 percent of our annual production is moved by rail. While this number can fluctuate based on service problems with the railroads, as occurred extensively in 1998, rail service is so important to our company that we own approximately 900 railcars to help assure us of an available supply to meet our shipping requirements. Hampton appears here today to oppose any proposed consolidation or merger of Class I Railroads in the United States, and we do this irrespective of the entities that might be involved in those consolidations.

As I indicated, past mergers in the railroad industry have created considerable problems for our company as well as many others in the forest products industry. Some of those problems have been alleviated, but we have not yet seen a level of service from the railroads we use that matches the level prior to the latest round of mergers. The challenges we often find with getting reliable rail service and timely delivery of our product require us to tie up valuable capital unnecessarily. Many of our customers will not tolerate the possibility of running out of product. The lack of certainty on delivery times due to continuing railroad service issues therefore requires us to maintain higher inventory levels than would otherwise be necessary. We believe the railroads should be asked to do much more to improve customer service before considering additional consolidation. We understand that any merger of consequence, such as the proposed merger of the Burlington Northern Santa Fe (BNSF) and Canadian National Railway (CN), must meet a public service standard in order to gain approval from the Surface Transportation Board. We anticipate some major and far-reaching ramifications to a BNSF/CN merger that could create

considerable problems for our industry, particularly because it involves both a United States and a Canadian railroad. Prior consolidations in the railroad industry have already narrowed the number of U.S. railroads to four, along with the two Canadian railroads. Experience has already shown us that service levels drop as the number of railroads decline. We do not believe the public will be served by additional consolidation and that we as shippers need more competition, not less competition, when it comes to rail options.

Our industry has a particular sensitivity to the combination of a Canadian railroad and a U.S. railroad because of the significant share of the U.S. lumber market that is already served by Canadian producers. When it comes to lumber products trade between the U.S. and Canada, it is definitely a one-way street with the Canadian industry holding about 35 percent share of the U.S. market. Governmental policies in some parts of Canada that effectively subsidize the cost of lumber production, led to an agreement to limit Canadian production into the U.S. with tariffs for excess shipments from Western Canada. That agreement is due to expire in March of 2001 and is not expected to be renewed. The expiration of that agreement coupled with the proposed BNSF/CN merger could put many U.S. lumber manufacturing jobs at risk. As I understand it, the BNSF has already suggested that they would expect to generate \$700 million in new revenue by increasing Canadian-produced shipments into the U.S. and displacing U.S. production into those markets which are presently served by the UP, CSX, and NS railroads. The proposed alliance would almost certainly trigger additional merger activity, further limiting competition and ultimately fostering an oligopoly that would be harmful to U.S. business and disastrous to the lumber industry.

As others have suggested, we also support the establishment of a moratorium on all Class I Railroad mergers for a period of five years or longer. We believe the public would be served by such a moratorium so that the impact of past mergers can be studied and conclusions reached about the desirability of future consolidation in the railroad industry. We believe that a possible conclusion of such a study would be that the current rail structure in the U.S. and Canada best represents the public's interest and preserves necessary levels of competition.